



Do You Have a Guaranteed Retirement Income Source During Retirement?

What do General Electric, IBM, Verizon, Lockheed Martin, Motorola, UPS and DuPont all have in common, other than they are very large, well-known and well-respected companies? They, among many other large companies, have frozen or terminated their pension plans.

Once upon a time, Americans were secure in the knowledge that they would work faithfully for a large corporation and be rewarded with a guaranteed stream of income during retirement, for the rest of their lives, from their company pension plan. Then, the Revenue Act of 1978 was enacted which created the 401(k) plan. According to Forbes, the public rationale for the creation of the 401(k) plan was to provide employees with an additional option to supplement their retirement savings. Behind the scenes, however, the companies were lobbying Congress to allow them to shut down their pension plans and reduce the risk they bore for the retirement of American workers.¹ Pension plans were very costly to operate, maintain and fund. The employer bore all the risk that funds would be adequate to pay out promised retirement benefits.

Since then, the 401(k) plan has become one of the most common and popular employer-sponsored retirement plans. The companies offering pensions have been drastically reduced. Many of those that had pensions have either terminated them or frozen them to stop further contributions into the plan and to exclude newer employees. The risk of having adequate income in retirement has now been shifted predominantly to the employee. 401(k) account balances are not guaranteed and are subject to the volatility of the investment markets. So, with no pension plan and only a 401(k) plan and/or personal savings, many American workers do not have a guaranteed source of retirement income to support them for the rest of their lives.

Now, you may be thinking, what about Social Security? Sure, Social Security provides a guaranteed retirement income for life, but Social Security was

never intended to be the sole source of retirement income. Indeed, the maximum amount of Social Security benefits that anyone can receive in 2021 is only \$3,895 per month and that's only for someone who has maximum taxable earnings each year, and delays claiming Social Security until age 70. At age 62, the maximum benefit is \$2,324 per month.² However, according to the Social Security Administration, in 2020, the average monthly benefit actually received by retirees was just \$1,514 per month.³ These amounts are not enough for most retirees.

Fortunately, there is another form of lifetime guaranteed retirement income that is often overlooked, and that is through the purchase of an annuity from a financially stable life insurance company, such as Security Mutual Life Insurance Company of New York (SML). Annuities are insurance products that can be purchased using personal and/or retirement investments and savings. Without an annuity, your investments and savings accounts are subject to the volatility of the investment market and economy. But, by purchasing

the annuity, you are converting your personal and/or retirement savings and investments to a reliable, steady and guaranteed stream of payments either for the rest of your life or for a pre-determined number of years, depending upon the product and features purchased.

Annuities come in several varieties. Some are designed to pay a guaranteed income immediately. Others are designed to continue growing in value through investments and additional contributions and then converted to a guaranteed income stream at a future date, such as retirement. Annuities can also be designed with varying settlement options (i.e., payout options) including payments for the annuitant's life regardless of how long he/she lives; life with guaranteed payments for a fixed period of time (i.e., guaranteed payments for a fixed period of time even if the annuitant dies prior to the end of that time period); joint and survivor with the spouse (i.e., upon the annuitant's death, some or all of the payments continue for the spouse's lifetime or a period certain); and other options.

Let's look at two simple examples:

Jim is 65 years old. The volatility of the investment market, political and social unrest, and a pandemic has really unnerved him. He doesn't see how he can have confidence to enjoy retirement without a guaranteed income stream. He's already receiving Social Security benefits but it isn't enough for his retirement. He decides to invest \$300,000 of his savings into a Single Premium Immediate Annuity (SPIA). An SPIA provides a lifetime income to Jim, the "annuitant," in exchange for the one-time premium payment of \$300,000. The annuity payment will be approximately \$1,600 per month and remain level for the rest of his life on a guaranteed basis. That provides him with the security that his retirement will be stable and unhindered by finances.

In contrast, Jim's brother, Charles, is only 55 and still working. He has the same worries as Jim but also worries about the future stability of the Social Security system. He decides to invest \$300,000 in a Single Premium Deferred Annuity (SPDA). An SPDA provides that for a one-time premium payment, a future income benefit will be periodically paid to Charles, the annuitant, beginning on a stipulated maturity date—in Charles's case, at age 65. The amount of the income benefit will be determined based upon a number of factors including gender, the accumulated value of the annuity on the maturity date, the settlement option selected, and Charles's attained age on the maturity date. Charles's SPDA guarantees him a monthly benefit of approximately \$1,860 but it could be higher depending upon how much value has accumulated in the annuity during the 10-year period and interest rates at that time.



As you can see, there are a variety of annuities with varying product features to choose from that may fit your needs and objectives.



For more information on how you can help to secure your retirement income on a guaranteed basis for life, please discuss your financial and retirement objectives with your Security Mutual Life Insurance Advisor to see if an annuity is right for you.

Sources

¹Pastore, Anthony. "Where Did All The Pensions Go?" Forbes.com. <https://www.forbes.com/sites/impactpartners/2018/02/09/where-did-all-the-pensions-go/?sh=4f8eb27a3aab> (accessed December 8, 2020).

²Social Security Administration. "Workers With Maximum-Taxable Earnings." ssa.gov. <https://www.ssa.gov/oact/cola/examplemax.html> (accessed December 8, 2020).

³Social Security Administration. "Fact Sheet: Social Security." ssa.gov. <https://www.ssa.gov/news/press/factsheets/basicfact-alt.pdf> (accessed December 8, 2020).

The applicability of any strategy discussed is dependent upon your individual facts and circumstances. Results will vary. Products and services discussed may not be appropriate for all clients. Your needs, objectives and financial circumstances may be different and must be reviewed and analyzed independently.

Note that the hypothetical examples shown within are for illustrative purposes only, are not intended to serve as a projection of any specific annuity contract, and do not guarantee or predict the results of any particular product. In preparing the examples, we did not take into account the investment objectives, financial situation or particular needs of a specific person. The depicted strategy may not be suitable or appropriate to your individual circumstances. Accordingly, it does not constitute a personal recommendation to you.

Annuities are not FDIC/NCUA insured; are not a deposit; may lose value; have no bank guarantee; and are not insured by any government agency.

Note: Annuities are meant to be long-term investments. Product guarantees including any optional benefits, are based on the claims-paying ability and financial strength of the issuing insurance company. Withdrawals are subject to ordinary income tax and if made prior to age 59½, may be subject to a 10% IRS tax penalty. Tax deferral may not be available if the annuity is owned by a non-natural person. There is no additional tax-deferred benefit for annuity contracts purchased in an Individual Retirement Account (IRA) or other tax-qualified plan because these are already afforded tax-deferred status. An annuity should be purchased in an IRA or qualified plan only if the purchaser values the annuity's other features such as a lifetime income payment. The renewal interest rate, after the initial guaranteed interest period, will be determined annually thereafter and will be guaranteed for one year at a time.

For SPIAs, non-qualified immediate annuities are purchased with monies upon which taxes have already been paid. A part of each non-qualified immediate annuity monthly payment is considered a return of previously taxed principal and is, therefore, excluded from taxation. The exclusion ratio determines the taxable and nontaxable portions of each payment. The formula is: Investment in the Contract/Expected Return. The exclusion ratio runs out when all of the principal in the contract has been received. When the entire amount of principal has been exhausted, the entire annuity payment will then be taxable.



The Company That Cares.®